

Message Text

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TO AMEMBASSY MONROVIA IMMEDIATE

C O N F I D E N T I A L STATE 014440

E.O. 11652: GDS

TAGS: EGEN, ENRG, LI

SUBJECT: LIBERIA REFINERY COMPANY (LRC)

REFS: A) MONROVIA 525, B) MONROVIA 524, C: STATE 13630

1. BEGIN SUMMARY. OFFICERS OF SUN AND DYNALECTRON, THE TWO AMERICAN OWNERS OF LIBERIAN REFINING COMPANY (LRC) CALLED ON AF/W AT THEIR REQUEST JANUARY 21. SUN WISHES DIVEST ITSELF OF OWNERSHIP OF LRC. DYNALECTRON IS PREPARED REMAIN IN LRC ONLY IF GOL PRICING POLICY IS LIBERALIZED. SUN REP WILL VISIT MONROVIA JANUARY 25 TO 28 TO MEET PRESIDENT TOLBERT, DISCUSS LRC SITUATION, AND SEEK WAY TO TRANSFER SUN OWNERSHIP TO GOL. END SUMMARY.

2. JANUARY 21 F. P. GLAZIER (VICE PRESIDENT LIBERIAN
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REFINING COMPANY AND PRESIDENT SUN OIL INTERNATIONAL), WALTER GILLIS (CHIEF COUNSEL SUN TRADING AND MARINE TRANSPORTATION), HARRY NAGEL (COUNSEL, SUN TRADING AND MARINE TRANSPORTATION), A.L. ANDERSON (WASHINGTON REP SUN COMPANY), AND JOHN SCHELLING (SENIOR VICE PRESIDENT AND GENERAL COUNSEL DYNALECTRON) CALLED ON AF/W TO DISCUSS LRC.

3. THEY DESCRIBED SITUATION OF LRC ALONG LINES OF PREVIOUS CONVERSATION REPORTED REF C. GLAZIER SAID SUN HAS DISCUSSED POSSIBILITY OF GOL PURCHASE OF THE REFINERY WITH LIBERIANS ON VARIOUS OCCASIONS DURING THE PAST YEAR. SUN FEELS THAT THE GOL HAS LITTLE DESIRE TO CONCLUDE THESE TALKS. MEANWHILE LRC GETS PROGRESSIVELY WEAKER. LAST OCASION WAS NOVEMBER WHEN PHILLIPS INVITED GLAZIER TO MONROVIA. SUN HAS ALSO DISCUSSED VALUE OF LRC WITH 2 OTHER POSSIBLE PURCHASERS, A VENEZUELAN FIRM (HIDEKO) AND A BEIRUT BASED FIRM (AHMAD SIRAKHBY AND ASSOCIATES). LATTERS OFFER IS STILL OUTSTANDING, AND IS APPROXIMATELY DOLS NINE MILLION. WE ASKED ABOUT POSSIBLE MOBIL INTEREST. GLAZIER SAID ONLY THAT MOBIL HAD EXPRESSED SOME INTEREST DURING PAST 2 YEARS AND THAT HE WAS AWARE MOBIL TEAM ARRIVED IN MONROVIA JANUARY 21.

4. GLAZIER (SUN) AND SCHELLING (DYNALECTRON) SUMMARIZED THE INTERESTS OF THEIR COMPANIES AS FOLLOWS. SUN WISHES TO DIVEST ITSELF OF ITS OWNERSHIP OF 67% OF LRC. ITS POSITION IN THIS REGARD IS FIRM. IT VALUES ITS INVESTMENT IN LRC AT DOLS 16 MILLION, DOLS 8.5 MILLION OF WHICH IS BOOK VALUE OF ITS SHARE OF THE ASSETS. IT HAS BEEN OFFERED AS MUCH AS DOLS 11 MILLION FOR ITS SHARES. BECAUSE OF LOSSES SUSTAINED BY LRC, IT CAN OFFSET ITS OVERALL TAX TO THE USG BY DOLS 7.5 MILLION. HOWEVER, UNDER THE PROVISIONS OF THE NEW TAX REFORM ACT, IF SUN'S OPERATIONS SHOW A PROFIT ELSEWHERE IN THE WORLD SUN'S LOSSES FOR TAX PURPOSES FROM LRC OPERATION WOULD BE CORRESPONDINGLY REDUCED.

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SUN REASONS THAT IF IT CAN DEMONSTRATE TO THE INTERNAL REVENUE SERVICE THAT IT WAS EXPROPRIATED IN LIBERIA, ITS DOLS 7.5 MILLION IN LOSSES WOULD BE SECURE. IT WOULD THUS BE WILLING TO ENTER INTO A "FRIENDLY EXPROPRIATION", PERHAPS BY EMINENT DOMAIN, IN WHICH IT WOULD BE COMPENSATED BY THE GOL TO THE VALUE OF 4 TO 5 MILLION DOLLARS, THUS BRINGING ITS TOTAL BENEFITS TO A FIGURE EQUAL TO, OR SLIGHTLY IN EXCESS OF THE OFFER IT HAS RECEIVED FROM ANOTHER PURCHASER.

5. DYNALECTRON IS COVERED AGAINST EXPROPRIATION BY LLOYDS OF LONDON TO THE FULL EXTENT OF ITS INVESTMENT. DYNALECTRON WOULD THUS ACCEPT AN EXPROPRIATION THAT WOULD BE REGARDED AS SUCH BY LLOYDS.

6. WE ASKED THE COMPANIES' VIEWS OF A GOL CHANGE IN PRICING POLICY FOR LRC. GLAZIER (SUN) REPLIED THAT HIS COMPANY'S INTENTION TO GET OUT OF LRC WAS FIRM, AND THAT BECAUSE OF THE CHANGE IN THE U.S. TAX LAW THEY SAW NO FUTURE IN REMAINING IN LIBERIA. SCHELLING (DYNALECTRON)

SAID THIS WAS THE POINT OF DIFFERENCE WITH SUN. DYNAL-ECTRON WOULD BE WILLING TO REMAIN IN LRC IF THERE WERE A REASONABLE CHANCE OF IMPROVING THE CASH FLOW.

7. REF A ARRIVED DURING MEETING, AND SUN OFFICERS GREETED IT AS A FURTHER SIGN RELATIONS WITH LIBERIA NOT ONLY MUST BE TERMINATED, BUT MIGHT BE. GLAZIER CLAIMED THERE WERE NO CONDITIONS WHICH THE LIBERIANS COULD MEET WHICH WOULD ALTER SUN'S POSITION AT THIS POINT. THE ATTITUDE BETWEEN THE TWO PARTIES WAS "BAD"--"WE CAN'T TRUST THEM AND THEY DON'T TRUST US"--AND THAT SUN WAS IN A "NO WIN" SITUATION. APPARENTLY THE GOL FEELS SUN IS MAKING LARGE PROFITS, WHILE SUN INSISTS IT IS ACTUALLY OUT OF POCKET BY A FEW HUNDRED THOUSAND DOLLARS IN THE FORM OF TECHNICAL ASSISTANCE FROM THE PARENT COMPANY THAT HAS NEVER BEEN RECOMPENSED. WITH REGARD TO THE GOL'S PRICE SETTING POLICY, UNDER STEVE TOLBERT THERE WAS A GREAT DEAL OF

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UNDERSTANDING WHEN OPEC FORCED UP PRICES, AND EDWIN WILLIAMS FAILED TO MOVE QUICKLY ONLY ONCE FOLLOWING A PRICE HIKE, BUT WITH THE PRESENT FINANCE MINISTER PHILLIPS, GLAZIER CONSIDERED THE MATTER IMPOSSIBLE. HE DESCRIBED IT AS "ABSOLUTE INCOMPREHENSION."

8. WHEN WE SAID AMBASSADOR WOULD SEE PRESIDENT TOLBERT ON THE MORNING OF JANUARY 22, THEY SUGGESTED THAT TWO POINTS BE MADE: 1) CONVINCE THE LIBERIANS THAT IT IS IN THEIR OWN INTEREST TO PURCHASE THE REFINERY TO ENSURE IT WILL CONTINUE OPERATIONS AND SUPPLY THE COUNTRY WITH ITS NEEDED HYDROCARBON PRODUCT REQUIREMENT, AND 2) CONVINCE THE LIBERIANS THAT THIS TIME SUN IS NOT CRYING "WOLF." SUN WILL RESTORE LRC TO ITS ORIGINAL OPERATING CONDITION BEFORE IT PULLS OUT, PARTLY THROUGH FINANCING FROM INSURANCE (REFINERY WAS INSURED BY ANOTHER SUN SUBSIDIARY), BUT ALSO BY TECHNICAL BACK-UP.

9. GLAZIER WILL ARRIVE MONROVIA JANUARY 25 TO MEET WITH PRESIDENT TOLBERT ON THE 27TH TO INFORM HIM OF SUN/DYNALECTRON POSITION. PRIOR TO MEETING WITH TOLBERT, GLAZIER WILL CALL ON MINISTERS PHILLIPS (FINANCE) AND DENNIS (COMMERCE), AND DEPUTY MINISTER OF JUSTICE, ROBERT TUBMAN.

10. WHEN AMBASSADOR SEES TOLBERT JANUARY 22 HE SHOULD NOTE THAT SUN AND DYNALECTRON HAVE EXPRESSED CONCERN ABOUT CURRENT SITUATION OF LRC TO DEPARTMENT, AND REQUEST PRESIDENT TOLBERT'S VIEWS. AMBASSADOR SHOULD NOT DISCUSS COMPANIES' VIEWS OR INTENTIONS OUTLINED ABOVE, BUT SHOULD EMPHASIZE OUR HOPE THAT GOL AND PARENT COMPANIES OF LRC

CAN REACH A WORKABLE SOLUTION. HE MAY NOTE THAT COMPANIES HAVE COMPLAINED TO US THAT GOL PRICING POLICY IS SO RESTRICTIVE THAT THE LRC HAS NEVER BEEN ABLE TO DECLARE DIVIDENDS. HE MAY ALSO OBSERVE THAT GOL POLICY WITH REGARD TO THIS SIGNIFICANT FOREIGN INVESTMENT IN LIBERIA COULD

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HAVE IMPORTANT BEARING ON LIBERIAN HOPES TO ATTRACT FURTHER FOREIGN INVESTMENT.

11. FYI. WE BELIEVE BEST POSITION AT PRESENT IS ONE OF INTERESTED NEUTRALITY. IN THE INITIAL ROUND OF NEGOTIATING WITH THE GOL, THE COMPANIES BEAR THE BURDEN OF PROVING TO THE GOL THE SERIOUSNESS OF LRC'S SITUATION AND OF PROPOSING A WORKABLE SOLUTION. END FYI.

1., WE DID NOT COMMENT ON SUBSTANCE OF SUN'S PROPOSAL, EXCEPT TO SAY THAT WE DOUBTED THAT THE GOL WOULD CONSENT TO BE A PARTY TO AN EXPROPRIATION, HOWEVER CAREFULLY ARRANGED, BECAUSE OF THE EFFECT THIS WOULD HAVE ON POTENTIAL FOREIGN INVESTORS. WE ADDED THAT LIBERIAN'S WERE PARTICULARLY CONSCIOUS OF THE COUNTRY'S CREDIT RATING, AND TENDED TO FOLLOW COMPARATIVELY CONSERVATIVE POLICY REGARDING FOREIGN EXCHANGE RESERVES AS A RESULT. WE NOTED, AS WE HAD IN THE PREVIOUS DISCUSSION, THAT WE COULD NOT JUDGE STRENGTH OF SUN'S ARGUMENT THAT GOL PRICING POLICY WAS STEP IN DIRECTION OF EXPROPRIATION.

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